

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name GALIEN TOWNSHIP SCHOOLS	County BERRIEN
Audit Date 6/30/04	Opinion Date 9/24/04	Date Accountant Report Submitted to State: 10/18/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) MCMURRAY, MARKS & EDMUNDS			
Street Address 805 VAN BRUNT AVENUE	City ST. JOSEPH	State MI	ZIP 49085
Accountant Signature <i>Michael W. Fayler</i>		Date 9/24/04	



GALIEN TOWNSHIP SCHOOLS

FINANCIAL REPORT WITH SUPPLEMENTAL INFORMATION

June 30, 2004

GALIEN TOWNSHIP SCHOOLS
Galien, Michigan
June 30, 2004

BOARD OF EDUCATION

		<u>Term Expires</u>
Maria Barr	President	June 30, 2006
Verna French	Vice President	June 30, 2004
Jan Coy	Secretary	June 30, 2007
Leann Carpenter	Treasurer	June 30, 2004
Sandra Blake	Trustee	June 30, 2005
Elizabeth Law	Trustee	June 30, 2006
Kim Wieczorek	Trustee	June 30, 2007

SUPERINTENDENT

Marilyn Tilmann

DIRECTOR OF BUSINESS

Maria Thompson

Contents

Independent Auditor's Report	1 - 2
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	3
Management's Discussion and Analysis	4 - 11
Basic Financial Statements	
District-wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Reconciliation of Balance Sheet of Governmental Funds to Net Assets	15
Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds	16
Reconciliation of Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Fiduciary Fund:	
Statement of Fiduciary Net Assets	18
Statement of Changes in Fiduciary Net Assets	18
Notes to Financial Statements	19 - 30

Contents

Required Supplemental Information

Budgetary Comparison Schedule – General Fund	31
Budgetary Comparison Schedules	
2001 School Improvement Bonds – Capital Project Fund	32
1999 Building & Site Bonds – Debt Retirement Fund	32

Other Supplemental Information

Combining Balance Sheet – Nonmajor Governmental Funds	33
Combining Statement of Revenues, Expenditures and Changes in	
Fund Balances – Nonmajor Governmental Funds	34



Independent Auditor's Report

Board of Education
Galien Township Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Galien Township Schools, as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Galien Township Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Galien Township Schools as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Galien Township Schools will continue as a going concern. As discussed in Note 12 to the financial statements, the Galien Township Schools have suspended their high school operations for the 2004-2005 school year and continue to see a declining student population in their remaining educational curriculums. The student population represents a significant portion of the Galien Township Schools' revenues and loss of those revenues could have negative impacts on the operations of Galien Township Schools. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As described in Note 1, Galien Township Schools had implemented a new financial reporting model, as required by Government Accounting Standards Board No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of June 30, 2004.

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and pages 31 to 32 are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Galien Township Schools' basic financial statement. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Independent Auditor's Report, Concluded

In accordance with *Government Auditing Standards*, we have also issued a report dated September 24, 2004, on our consideration of the District's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

McMurray, Marks & Edmunds

McMurray, Marks & Edmunds
September 24, 2004



**Report on Compliance and On Internal Control
Over Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Education of the
Galien Township Schools

We have audited the financial statements of Galien Township Schools as of and for the year ended June 30, 2004, and have issued our report thereon dated September 24, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Galien Township Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We also noted certain immaterial instances of noncompliance that we have reported to management of Galien Township Schools in a separate letter dated September 24, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Galien Township Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Galien Township Schools' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described as follows: Galien Township Schools lacks an appropriate segregation of duties consistent with appropriate control objectives. We understand this is primarily due to financial constraints.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of Galien Township Schools in a separate letter dated September 24, 2004.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

McMurray, Marks & Edmunds

McMurray, Marks & Edmunds
September 24, 2004

Galien Township Schools, a K-12 School District located in Berrien County, Michigan, follows the provisions of Governmental Accounting Standards Board Statement 34 ("GASB 34") with the enclosed financial statements. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be discussion and analysis of the financial results for the fiscal year ended June 30, 2004 of the management of Galien Township Schools ("the School District").

Generally accepted accounting principles ("GAAP") and GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Capital Projects Funds, Debt Service Funds, and the School Service Funds which are comprised of: Food Service and Athletics Funds.

In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

The School District as Trustee — Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. These are excluded activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Summary of Net Assets

The District had \$206,631 in net assets as of June 30, 2004. The net assets of the District are summarized in the table below:

	<u>June 30, 2004</u>
Assets:	
Cash and cash equivalents	\$ 1,106,334
Due from other governmental units	376,470
Net capital assets	2,581,256
Other assets	6,845
	<u>\$ 4,070,905</u>
Liabilities:	
Accounts payable and other accrued liabilities	\$ 324,966
Notes and bonds payable	3,486,520
Other liabilities	52,788
	<u>\$ 3,864,274</u>
Net Assets	
Investment in capital assets - net of related debt	\$ (655,264)
Restricted for:	
Debt service	173,373
Capital projects	378,285
Other	15,975
Unrestricted	294,262
Total Net Assets	<u><u>\$ 206,631</u></u>

Analysis of Financial Position

During fiscal year ended June 30, 2004, the District's net assets decreased by \$559,907. A few of the significant factors affecting net assets during the year are discussed below:

A. General Fund Operations

The District's expenditures from General Fund operations exceeded revenues by \$520,678 for the fiscal year ended June 30, 2004. See the section entitled Results of Operations, below, for further discussion of General Fund operations.

B. Debt Payments

The District made principal payments on bonded, long term debt obligations which reduced the amount of the district's long term liabilities. Principal payments made during the year ended June 30, 2004 totaled \$95,000 and reduced the 2001 and 1999 School Improvement Bonds.

Analysis of Financial Position, Concluded**C. Net Investment in Capital Assets**

The District's net investment in capital assets decreased by \$190,910 during the year. The net activity for the year is summarized in the following table:

	Balance			Balance
	July 1, 2003	Additions	Deletions	June 30, 2004
Capital Assets	\$ 6,576,725	\$ -	\$ (92,861)	\$ 6,483,864
Less: accumulated depreciation	(3,804,559)	(177,933)	79,884	(3,902,608)
Net investment capital outlay	<u>\$ 2,772,166</u>	<u>\$ (177,933)</u>	<u>\$ (12,977)</u>	<u>\$ 2,581,256</u>

This year, the School District had no current year additions. Due to anticipated deficits, the School District does not expect or has planned any capital projects for the 2004-2005 fiscal years. The School District does not own any infrastructure assets.

D. In 1999, Galien Township School voters approved a \$2,920,000, general obligation bond issue. The proceeds from the original 1999 bond issue were used for renovating the high school and partially remodeling of existing school facilities, and equipping facilities.

In 2001, the District received \$500,000 from Q.Z.A.B. issues for a new capital equipment purchases and remodeling of the existing school facilities.

Results of Operations

The District-wide results of operations for the fiscal years ended June 30 are summarized in the table below:

	<u>June 30, 2004</u>
Revenues:	
General Revenues:	
Property taxes levied for general operations	\$ 205,593
Property taxes levied for debt service	233,756
State of Michigan unrestricted foundation aid	1,879,051
Other general revenues	<u>9,170</u>
Total general revenues	<u>\$ 2,327,570</u>
Operating Grants:	
Federal	\$ 276,761
State of Michigan	159,342
Interdistrict sources	40,210
Earnings on investments	<u>13,366</u>
Total operating grants	<u>\$ 489,679</u>
Charges for Services:	
Food service	\$ 55,617
Other charges for services	<u>16,688</u>
Total charges for services	<u>\$ 72,305</u>
Total revenues	<u>\$ 2,889,554</u>
Expenses:	
Instruction	\$ 1,792,080
Pupil services	68,462
Support services	1,062,732
Food service	113,303
Athletics	82,403
Interest on long-term debt	152,548
Depreciation	<u>177,933</u>
Total expenses	<u>\$ 3,449,461</u>
Change in Net Assets	<u>\$ (559,907)</u>
Beginning Net Assets	<u>766,538</u>
Ending Net Assets	<u><u>\$ 206,631</u></u>

A. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan unrestricted aid is determined by the following variables:

1. State of Michigan State Aid Act per student foundation allowance,
2. Student Enrollment - Blended at 80 percent of current year fall count and 20 percent of prior year winter count, and
3. The District's non-homestead levy.

Per Student Foundation Allowance

Annually, the State of Michigan sets the per student foundation allowance. The Galien Township Schools' net foundation allowance for the fiscal year 2004 was \$6,626 per student. This net amount includes the \$74 per student cut due to a governor's executive order prior to the fiscal year. This amount was decreased over the District's 2002-2003 foundation allowance of \$6,648 per student.

Student Enrollment

The District's student enrollment for the fall count of 2003-2004 was 309.50 students. The District's enrollment decreased slightly from the prior year count by 8.50 students. The following summarizes fall student enrollments in the past five years:

<u>Fiscal Year</u>	<u>Student F.T.E.</u>	<u>F.T.E. Change from Prior Year</u>
2003-2004	309.50	(8.50)
2002-2003	318.00	(6.00)
2001-2002	312.00	(65.00)
2000-2001	377.00	(13.50)
1999-2000	390.50	(30.50)

Subsequent to year end June 30, 2004, preliminary student enrollments for 2004-2005 indicate that enrollments may decrease by about 80 to 100 students from 2003-2004.

B. Property Taxes Levied for General Operations (General Fund Non-Homestead Taxes)

The District levies approximately 18 mills of property taxes for operations (General Fund) on Non-Homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property levy for the 2003-2004 fiscal years was \$205,593. The non-homestead tax levy has increased by 4.60 percent over the prior year.

B. Property Taxes Levied for General Operations (General Fund Non-Homestead Taxes), concluded

The following summarizes the District's non-homestead levy over the past five years:

<u>Fiscal Year</u>	<u>Non-Homestead Levy</u>	<u>% Increase from Prior Year</u>
2003-2004	\$ 205,593	4.60%
2002-2003	\$ 196,492	10.20%
2001-2002	\$ 178,259	15.00%
2000-2001	\$ 154,996	-1.84%
1999-2000	\$ 157,895	3.00%
Average Increase		6.19%

C. Debt Fund Property

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2003-2004, the District's debt millage levy was 3.47 mills that generated a levy of \$233,756.

D. Food Sales to Students & Adults (School Lunch Program)

The District's food and milk sales to students and adults decreased by \$8,879 to \$55,617 from the prior school year. Neither school lunch nor milk prices were increased during the year.

The total expenditures from Food Service operations exceeded total revenues for the year by \$1,009.

E. General Fund Expenditures Budget vs. Actual Five Year History

<u>Fiscal Year</u>	<u>Expenditures Preliminary Budget</u>	<u>Expenditures Final Budget</u>	<u>Expenditure Final Audit</u>	<u>Final Audit as a % of Prelim. Budget</u>	<u>Final Audit as a % of Final Budget</u>
2003-2004	\$ 3,042,662	\$ 2,966,010	\$ 2,951,277	97.00%	99.50%
2002-2003	4,285,905	3,996,837	3,957,958	92.35%	99.03%
2001-2002	2,810,848	3,285,436	3,270,173	116.34%	99.54%
2000-2001	2,822,497	3,002,476	3,174,875	112.48%	105.74%
1999-2000	2,720,437	2,639,109	2,639,368	97.02%	100.01%
Five Year Average				103.04%	100.76%

F. General Fund Revenues Budget vs. Actual Five Year History

Fiscal Year	Revenues Preliminary Budget	Revenues Final Budget	Revenues Final Audit	Final Audit as a % of Prelim. Budget	Final Audit as a % of Final Budget
2003-2004	\$ 2,419,022	\$ 2,472,047	\$ 2,537,257	104.89%	102.64%
2002-2003	3,017,657	3,147,881	3,131,635	103.78%	99.48%
2001-2002	2,799,127	3,593,595	3,611,609	129.03%	100.50%
2000-2001	2,801,486	2,931,511	3,216,535	114.82%	109.72%
1999-2000	2,673,295	2,617,898	2,771,411	103.67%	105.86%
Five Year Average				111.24%	103.64%

G. Original vs. Final Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Galien Township Schools amends its budget during the school year. For fiscal year June 30, 2004, the budget was amended in November of 2003 and in June of 2004. The June 2004 budget amendment was the final budget for the fiscal year.

Change from Original Budget:

General Fund Revenues:

Total Revenues Original Budget	\$ 2,419,022	100.00%
Total Revenues Final Amended Budget	2,472,047	100.22%
	<u>\$ (53,025)</u>	<u>(.22)%</u>

The District's actual general fund revenues differed from the final budget by \$53,025, a variance of .22% from final budget.

The final revenue budget reflects the following changes from the original budget:

- The District received more Federal Source monies than originally budgeted, due to applying for and getting grants for specific needs.

Change from Original Budget:

General Fund Expenditures:

Total Expenditures Original Budget	\$ 3,042,662	100.00%
Total Expenditures Final Amended Budget	2,966,010	97.32%
	<u>\$ 76,652</u>	<u>2.68%</u>

G. Original vs. Final Budget, concluded

The final expenditures budget reflects the following changes from the original budget:

- Certain purchases originally budgeted were not made at or near year-end because the District believes the State Foundation Grant may be frozen in the near future.

H. Expected Future Results

Due to declining enrollment over the last decade, it became necessary to suspend the offering of classes for grades 9 through 12 for the 2004-2005 school years. The School District will continue to offer preschool and grades kindergarten through 8, as well as, an alternative education program for grades 7 through 12 in the 2004-2005 school year.

The Board of Education continues to explore options for the continuation of the District beyond 2004-2005.

I. Contacting the District's Financial Management

The financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. Additional comparative analysis will be provided in future years when prior year information is available. If you have questions about this report or need additional information, please contact the Business Office at Galien Township Schools.

GALIEN TOWNSHIP SCHOOLS**STATEMENT OF NET ASSETS
JUNE 30, 2004
Governmental
Activities****Assets****Current assets:**

Cash and investments	\$ 1,106,334
Receivables	1,000
Due from other governmental units	376,470
Inventories	5,845
Prepaid expenditures	-
Total current assets	<u>\$ 1,489,649</u>

Noncurrent assets:

Capital assets	6,483,864
Less: accumulated depreciation	(3,902,608)
Total noncurrent assets	<u>\$ 2,581,256</u>

Total Assets\$ 4,070,905**Liabilities****Current liabilities:**

Accounts payable	\$ 29,010
Accrued payroll and other liabilities	295,956
Due to other governmental activities	52,788
Notes and bonds payable, due within one year	111,461
Revenue anticipation notes	250,000
Total current liabilities	<u>\$ 739,215</u>

Noncurrent liabilities:

Notes and bonds payable, due in more than one year	3,125,059
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Total Liabilities\$ 3,864,274**Commitments and Contingencies****Net Assets**

Investment in capital assets - net of related debt	\$ (655,264)
Restricted for:	
Debt service	173,373
Capital projects	378,285
Other	15,975
Unrestricted	294,262

Total Net Assets\$ 206,631**Total Liabilities and Net Assets**\$ 4,070,905*See accompanying notes to the financial statements.*

GALIEN TOWNSHIP SCHOOLS

STATEMENT OF ACTIVITIES

JUNE 30, 2004

Functions/Programs	Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Assets
Primary government -				
Governmental activities:				
Instruction	\$ 1,792,080	\$ 850	\$ 416,127	\$ (1,375,103)
Pupil services	68,462	-	-	(68,462)
Support services	1,062,732	1,423	7,415	(1,053,895)
Food services	113,303	55,616	52,771	(4,916)
Athletics	82,403	14,416	-	(67,987)
Interest on long-term debt	152,548	-	-	(152,548)
Depreciation (unallocated)	177,933	-	-	(177,933)
	<u>\$ 3,449,461</u>	<u>\$ 72,305</u>	<u>\$ 476,313</u>	<u>\$ (2,900,844)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				\$ 205,593
Property taxes, levied for debt purposes				233,756
State aid not restricted to specific purposes				1,879,051
Interest and investment earnings				13,366
Special item-gain on sale of assets				799
Other				<u>8,372</u>
Total general revenues				<u>\$ 2,340,937</u>
Change in Net Assets				<u>\$ (559,907)</u>
Net Assets - beginning of year				<u>766,538</u>
Net Assets - end of year				<u>\$ 206,631</u>

See accompanying notes to the financial statements.

GALIEN TOWNSHIP SCHOOLS

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2004

	General	2001 School Improvement Bonds- Capital Projects Fund	1999 Building & Site Bonds-Debt Retirement Fund	Non-Major Governmental Funds	Total
Assets					
Cash and investments	\$ 545,730	\$ 378,285	\$ 173,373	\$ 8,946	\$ 1,106,334
Receivables	1,000	-	-	-	1,000
Due from other governmental units	375,286	-	-	1,184	376,470
Due from other governmental funds	-	-	-	-	-
Inventories	4,703	-	-	1,142	5,845
Prepaid expenditures	-	-	-	-	-
Total Assets	\$ 926,719	\$ 378,285	\$ 173,373	\$ 11,272	\$ 1,489,649
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 29,010	\$ -	\$ -	\$ -	\$ 29,010
Accrued salaries and withholdings	295,956	-	-	-	295,956
Revenue anticipation notes	250,000	-	-	-	250,000
Due to other governmental units	52,788	-	-	-	52,788
Total Liabilities	\$ 627,754	\$ -	\$ -	\$ -	\$ 627,754
Fund Balance					
Reserved for inventories	\$ 4,703	\$ -	\$ -	\$ 1,142	\$ 5,845
Reserved for prepaids	-	-	-	-	-
Reserved for debt service	-	-	173,373	-	173,373
Reserved for capital projects	-	378,285	-	-	378,285
Designated	193,640	-	-	-	193,640
Unreserved and undesignated	100,622	-	-	-	100,622
Unreserved and undesignated - food service	-	-	-	2,075	2,075
Unreserved and undesignated - athletics	-	-	-	8,055	8,055
Total Fund Balance	\$ 298,965	\$ 378,285	\$ 173,373	\$ 11,272	\$ 861,895
Total Liabilities and Fund Balance	\$ 926,719	\$ 378,285	\$ 173,373	\$ 11,272	\$ 1,489,649

See accompanying notes to the financial statements.

GALIEN TOWNSHIP SCHOOLS**RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS
JUNE 30, 2004**

Total Fund Balances - Governmental Funds **\$ 861,895**

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds.

Cost of the capital assets	6,483,864
Accumulated depreciation	(3,902,608)

Long-term liabilities are not due and payable in the current period
and are not reported in the funds:

Bonds payable	<u>(3,236,520)</u>
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Total Net Assets-Governmental Activities **\$ 206,631**

See accompanying notes to the financial statements.

GALIEN TOWNSHIP SCHOOLS

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	General	2001 School Improvement Bonds Capital Projects Fund	1999 Building & Site Bonds-Debt Retirement Fund	Other Nonmajor Governmental Funds	Total
Revenues					
Property taxes	\$ 205,593	\$ -	\$ 233,756	\$ -	\$ 439,349
Local sources	6,202	-	-	70,033	76,235
State sources	2,049,413	-	-	7,197	2,056,610
Federal sources	231,188	-	-	45,573	276,761
Interdistrict sources	40,210	-	-	-	40,210
Earnings on investments	4,651	8,185	478	52	13,366
Total Revenues	\$ 2,537,257	\$ 8,185	\$ 234,234	\$ 122,855	\$ 2,902,531
Expenditures					
Current:					
Instruction	\$ 1,792,080	\$ -	\$ -	\$ -	\$ 1,792,080
Pupil services	68,462	-	-	-	68,462
Supporting services	1,015,445	-	-	195,706	1,211,151
Debt service	28,003	-	-	-	28,003
Intergovernmental payments	47,287	-	-	-	47,287
Total Expenditures	\$ 2,951,277	\$ -	\$ -	\$ 195,706	\$ 3,146,983
Excess (Deficiency) of Revenues over Expenditures	\$ (414,020)	\$ 8,185	\$ 234,234	\$ (72,851)	\$ (244,452)
Other Financing Sources (Uses)					
Operating transfers in	\$ -	\$ -	\$ -	\$ 106,658	\$ 106,658
Payment to bond escrow agent					
Principal	-	-	(60,000)	(35,000)	(95,000)
Interest and fees	-	-	(147,499)	-	(147,499)
Operating transfers out	(106,658)	-	-	-	(106,658)
Total Other Financing Sources (Uses)	\$ (106,658)	\$ -	\$ (207,499)	\$ 71,658	\$ (242,499)
Net Change in Fund Balances	\$ (520,678)	\$ 8,185	\$ 26,735	\$ (1,193)	\$ (486,951)
Fund Balances - Beginning of year	819,643	370,100	146,638	12,465	1,348,846
Fund Balances - End of year	\$ 298,965	\$ 378,285	\$ 173,373	\$ 11,272	\$ 861,895

See accompanying notes to the financial statements.

GALIEN TOWNSHIP SCHOOLS

RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

Net change in fund balances - Total Governmental Funds	\$ (486,951)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.	
Depreciation expense	(177,933)
Capital outlay	-
Net change in capital assets	\$ (177,933)
In the statement of activities, only the gain on the sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the assets sold.	
	\$ (12,977)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	
	\$ 117,954
Change in net assets - Governmental Activities	\$ (559,907)

See accompanying notes to the financial statements.

GALIEN TOWNSHIP SCHOOLS

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	Private-Purpose <u>Trusts</u>	Agency Fund <u>Student Activities</u>	Total <u>Fiduciary Funds</u>
Assets:			
Cash and cash equivalents	\$ -	\$ 21,968	\$ 21,968
Investments	33,985	-	33,985
Total Assets	<u>\$ 33,985</u>	<u>\$ 21,968</u>	<u>\$ 55,953</u>
Liabilities:			
Due to student groups	<u>\$ -</u>	<u>\$ 21,968</u>	<u>\$ 21,968</u>
Net Assets:			
Held in trust for other purposes	<u>\$ 33,985</u>		<u>\$ 33,985</u>
Total Liabilities and Net Assets	<u>\$ 33,985</u>		<u>\$ 55,953</u>

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2004

	Private-Purpose <u>Trusts</u>
Additions:	
Interest and investment earnings	\$ 49
Deductions:	
Scholarships awarded	<u>(1,003)</u>
Change in net assets	<u>\$ (954)</u>
Net assets-beginning of year	<u>34,939</u>
Net assets-end of year	<u>\$ 33,985</u>

See accompanying notes to the financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Galien Township Schools (the “School District”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units and with the rules prescribed in the accounting manual by the Michigan Department of Education. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (“GASB”) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School Districts’ reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

District Wide and Fund Financial Statements

The District-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district’s government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-Wide Statements — The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

District-Wide Statements (concluded) — Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Fund Based Statements — Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government. The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

The General Fund is the school district's primary operating fund. It accounts for all financial resources of the district, except those required to be accounted for in another fund.

2001 School Improvements Bonds-Capital Projects Fund is the District's capital project fund. It accounts for the resources and building expenditures of a renovation for the existing high school.

1999 Building & Site Bonds-Debt Retirement Funds is the District's debt retirement fund. It accounts for resources and expenditures relating to repayment of the bond issue. Additionally, the government reports the following fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The District has the following:

The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District are the Athletic Fund and Food Services Fund.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Student Activity (Agency Fund) — The School District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments — Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables — In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. For Galien Township School, taxpayers in the Townships of Buchanan, Bertrand, Galien, and Weesaw, properties are assessed as of December 31 and the related property taxes are levied and become a lien on March 1 for 100 percent of the taxes. The final collection date is February 28, after which uncollected taxes are added to the Berrien County delinquent tax rolls.

The State of Michigan utilized a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state’s School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year is recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Inventories — Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the Food Service Fund are recorded as inventory and deferred revenue until used.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prepaid Items — Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements

Capital Assets — Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extended asset life are not capitalized. The school district does not have infrastructure type assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years
Land Improvements	10-20 years

Compensated Absences — The liability for compensated absences, if any, reported in the government-wide statements consists of unpaid, accumulated annual and vacation balances. The liability is calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-Term Obligations — In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity — In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change, and are as follows:

Deficit budget for 2004 – 2005 (General Fund) \$193,640.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

Comparative Data — Comparative data is not included in the district's financial statements.

Accounting Change — The School District follows the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* ("GASB 34"). Changes to the School District's financial statements as a result of GASB 34 are as follows:

A Management's Discussion and Analysis ("MD&A") section providing analysis of the School District's overall financial position and results of operations has been included.

District-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using full accrual accounting for all of the School District's activities have been provided.

The following table summarizes the differences between fund balance as reported in the prior year financial statements and the beginning net assets as reported in the Statement of Activities.

Total Prior Year Fund Balances - Governmental Funds	\$ 1,348,846
--	---------------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.

Cost of the capital assets	6,576,725
Accumulated depreciation	(3,804,559)

Long-term liabilities are not due and payable in the current period and are not reported in the funds:

Bonds payable	(3,354,474)
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Total prior year net assets-Governmental activities	\$ 766,538
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Estimates — The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and other major funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e. the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the district to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year. There were four quarterly amendments during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be re-appropriated and honored during the subsequent year. There were no encumbrances at June 30, 2004.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School District had expenditures that exceeded appropriations in the following major budgeted functions:

General Fund:

<u>Function</u>	<u>Final Budget</u>	<u>Final Actual</u>	<u>Variance</u>
Instruction-Middle School	\$ 242,863	\$ 263,663	\$ (20,800)
Instruction-Special Education	195,055	195,695	(640)
Instruction-Compensatory Education	253,103	254,546	(1,443)
Supporting services-Library	15,946	16,107	(161)
Supporting services-Board of Education	81,233	87,392	(6,159)
Supporting services-Executive	208,571	211,789	(3,218)
Supporting services-Operations	235,584	249,567	(13,983)

2001 School Improvement Bonds-Capital Projects Fund

No current year variances.

1999 Building & Site Bond-Debt Retirement Fund

No current year variances.

Funds sufficient to provide for the excess expenditures were made available from other functions within the fund, and the excess had no impact on the financial results of the School District.

NOTE 3. DEPOSITS AND INVESTMENTS

At year-end, the school district's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	\$ 833,128	\$ 21,968	\$ 855,096
Investments	273,206	33,985	307,191
	<u>\$ 1,106,334</u>	<u>\$ 55,953</u>	<u>\$ 1,162,287</u>

The breakdown between deposits and investments for the school district is as follows:

Deposits (checking and savings accounts)	\$ 854,796
Investments in securities, mutual funds, and similar vehicles	307,191
Petty cash and cash on hand	300
	<u>\$ 1,162,287</u>

The deposits of the School District were reflected in the accounts of the Financial Institution at \$943,054, of which \$213,321 is covered by federal depository insurance. State statutes and the School District's investment policy authorize the district to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan; the district is allowed to invest in U.S. Treasury or Agency obligation, U.S. Government repurchases agreements, bankers' acceptances, commercial paper rated prime at the time of purchases which mature not more than 270 days after the date of purchases, mutual funds an investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The School District's investments at June 30, 2004 were bank investment pools and interlocal agreement investment pools that had a carrying amount and market value of \$273,206. The bank investment pools are regulated by the Michigan Banking Act and the investments under the interlocal agreement (MILAF) are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement pools is the same as the value of the pool shares.

Investments are normally categorized to give an indication of the level of risk assumed by the School District; however, bank investment pools and interlocal agreement investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment authority noted above.

NOTE 4. RECEIVABLES AND PAYABLES

Receivables as of year-end for the School District's individual major funds, and the non-major funds and fiduciary funds in the aggregate, including any allowance for uncollectible amounts are as follows:

	General Fund	Nonmajor and Other Funds	Total
Receivables:			
Intergovernmental	\$ 375,286	\$ 1,184	\$ 376,470
Trade	1,000	-	1,000
	<u>\$ 376,286</u>	<u>\$ 1,184</u>	<u>\$ 377,470</u>

Payables as of year-end for the School District's individual major funds, and the non-major and fiduciary funds in the aggregate, are as follows:

	General Fund	Nonmajor and Other Funds	Total
Payables:			
Trade	\$ 29,010	\$ -	\$ 29,010

NOTE 5. CAPITAL ASSETS

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Assets not being depreciated:				
Land	\$ 36,000	\$ -	\$ (2,000)	\$ 34,000
Capital assets being depreciated:				
Building and building improvements	\$ 5,285,557	\$ -	\$ -	\$ 5,285,557
Land improvements	270,165	-	-	270,165
Buses and other vehicles	383,432	-	(90,861)	292,571
Furniture and equipment	601,571	-	-	601,571
Subtotal	<u>\$ 6,540,725</u>	<u>\$ -</u>	<u>\$ (90,861)</u>	<u>\$ 6,449,864</u>
Accumulated depreciation:				
Building and building improvements	\$ 3,035,786	\$ 95,140	\$ -	\$ 3,130,926
Land improvements	260,233	2,584	-	262,817
Buses and other vehicles	160,720	29,348	(79,884)	110,184
Furniture and equipment	347,820	50,861	-	398,681
Subtotal	<u>\$ 3,804,559</u>	<u>\$ 177,933</u>	<u>\$ (79,884)</u>	<u>\$ 3,902,608</u>
Net capital assets being depreciated	<u>\$ 2,736,166</u>			<u>\$ 2,547,256</u>
Net capital assets	<u>\$ 2,772,166</u>			<u>\$ 2,581,256</u>

Depreciation expense was not charged to activities as the district considers its assets to impact multiple activities and allocation is not practical.

NOTE 6. LONG-TERM DEBT

The school district issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the school district.

Long-term obligation activity can be summarized as follows:

	Beginning			Ending	Due Within
	Balance	Additions	Reductions	Balance	One Year
<i>Governmental Activities:</i>					
Bonds	\$ 3,272,374	\$ -	\$ (95,000)	\$ 3,177,374	\$ 95,000
Notes Payable	82,100	-	(22,954)	59,146	16,461
Total bonds and notes payable	<u>\$ 3,354,474</u>	<u>\$ -</u>	<u>\$ (117,954)</u>	<u>\$ 3,236,520</u>	<u>\$ 111,461</u>
 Total Long-term debt and other	 <u>\$ 3,354,474</u>	 <u>\$ -</u>	 <u>\$ (117,954)</u>	 <u>\$ 3,236,520</u>	 <u>\$ 111,461</u>

Annual debt service requirements to maturity for the above Governmental bond and note obligations are as follows:

	<i>Governmental Activities:</i>		
	Principal	Interest	Total
2005	\$ 111,461	\$ 145,698	\$ 259,164
2006	139,018	149,640	290,664
2007	136,389	139,313	277,709
2008	141,958	134,864	278,830
2009	149,127	129,648	280,784
Thereafter	<u>2,558,567</u>	<u>902,740</u>	<u>3,461,307</u>
	<u>\$ 3,236,520</u>	<u>\$ 1,601,903</u>	<u>\$ 4,848,458</u>

NOTE 6. LONG-TERM DEBT (CONCLUDED)

Governmental Activities:

General obligation bonds consist of:

\$74,153-1998 School Improvement Bonds(durant non-plaintiff); payable in annual installments of \$5,207 to \$24,572; interest at 3.5% to 5.25%; due 5/15/2013. \$ 47,374

\$500,000-2001 School Improvement Bonds(QZAB); payable in annual installments of \$35,000 to \$45,000; interest at 0%; due 4/12/2014. 395,000

\$2,920,000-1999 Building & Site Bonds; payable in annual installments of \$60,000 to \$260,000; interest from 4.0% to 5.375%; due 5/1/2019. 2,735,000

Total bonds payable \$ 3,177,374

Notes Payable:

\$57,788-Chemical Bank Shoreline Note; payable in monthly installments of \$1,050.19 including interest at 3.39%; due 12/01/2007; secured by a bus. \$ 41,501

\$24,570-Chemical Bank Shoreline Not; payable in monthly installments of \$446.52 including interest at 3.39%; due 12/01/2007; secured by a bus. 17,645

Total notes payable \$ 59,146

Total long-term debt \$ 3,236,520

Durant Non-Plaintiff Bond - Included in Governmental Activities General Obligation Bonds is the Durant Non-Plaintiff Bond. Annual total payments (principle and interest) of \$5,207 to \$27,572 associated with this Bond are funded by the State of Michigan via specifically appropriated State Aid and will not require any District debt levy or utilization of any other district financial resources.

NOTE 7. 2001 SCHOOL IMPROVEMENT BOND EXPENDITURES

The 2001 School Improvement Bond capital projects fund include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with applicable provisions of section 1351a of the revised school code.

NOTE 8. DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

Funding Policy - Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 12.99 percent for the period July 1, 2003 through September 30, 2003 and 12.99 percent for the period October 1, 2003 through June 30, 2004 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The District's contributions to the MPERS plan for the years ended June 30, 2004, 2003, and 2002 were \$226,303, \$266,240 and \$239,992, respectively.

Post Employment Benefits - Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverage's contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage's. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPERS plan discussed above.

NOTE 9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The general fund transfers monies to the athletic fund (\$67,783) and food service (\$3,875) to subsidize those activities. In additions, it transfers monies to the debt retirement fund (\$35,000) for repayment of bond issues used for general fund projects.

The composition of interfund balances is as follows:

Due To/From Other Funds:

None for the current year

Interfund Transfers:

Transfer In:	Transfer Out:	Amount
Other Governmental Funds	General Fund	\$ 106,658

NOTE 10. RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The School District has purchased commercial insurance for health claims and participates in the SET/SEG (risk pool) for claims relating to workers' compensation and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 11. REVENUE ANTICIPATION NOTES

At June 30, 2004, the School District has outstanding a \$250,000 revenue anticipation note (state-aid note). The note has an interest rate of 1.03%, and matures August 20, 2004. The School District does not have any funds set aside to pay-off this note. The note is secured by the full faith and credit of the School District, as well as, pledged State Aid.

NOTE 12. CONTINUE AS A GOING CONCERN

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates continuation of the District as a going concern. However, the District has sustained substantial operating losses in the current year and has budgeted substantial losses for the next fiscal year, both due to continued student enrollments. Further, the State of Michigan, which is the District's largest revenue source, has frozen the amount of money they give for each student and has reduced the Foundation allowance the School District receives. The School District has also suspended high school operations for the 2004-2005 school year. Should students continue to leave the District, the amount that the State will provide the District for those students will go away and further reduce the assets available to pay down liabilities.

In view of these matters, realization of a major portion of the assets in the accompanying balance sheet is dependent upon the continued operations of the District, which in turn is dependent upon the District's ability to meet its financing requirements, and the success of its future operations. Management has various options from reinstating the high school, offering alternative education, to discontinuing all operations. Management believes that actions presently being taken to revise the District's operating and financial requirements provide the opportunity for the District to continue as a going concern.

**REQUIRED SUPPLEMENTAL
INFORMATION**

GALIEN TOWNSHIP SCHOOLS

REQUIRED SUPPLEMENTARY SCHEDULE BUDGETARY COMPARISON SCHEDULE — GENERAL FUND JUNE 30, 2004

	Original	Budget	Final Amended Budget	Actual
Revenues				
Property taxes	\$	204,448	\$	201,971
Local sources		9,242		6,108
State sources		2,056,376		2,041,855
Federal sources		131,409		198,076
Interdistrict sources		17,547		19,537
Earnings on investments		-		4,500
Total Revenues	\$	2,419,022	\$	2,472,047
Expenditures - Current				
Instruction:				
Elementary	\$	428,811	\$	428,811
Middle School		242,863		242,863
High School		573,770		573,770
Preschool		53,084		89,100
Summer School		-		3,650
Special Education		195,055		195,055
Compensatory Education		253,103		253,103
Technical Education		34,695		34,695
Pupil Services		68,615		69,381
Supporting services:				
Improvement of instruction		5,645		5,645
Library		15,946		15,946
Board of education		93,201		81,233
Executive		206,724		208,571
Principal		241,122		241,122
Operations		364,348		235,584
Pupil transportation		212,188		212,188
Debt service		28,006		28,006
Capital outlay		-		-
Intergovernmental payments		25,486		47,287
Total Expenditures	\$	3,042,662	\$	2,966,010
Deficiency of Revenues under Expenditures	\$	(623,640)	\$	(493,963)
Other Financing Sources (Uses)				
Operating transfers in	\$	-	\$	-
Operating transfers out		(120,090)		(111,800)
Total other financing sources (uses)	\$	(120,090)	\$	(111,800)
Net Change in Fund Balances	\$	(743,730)	\$	(605,763)
Fund Balances - Beginning of year		819,643		819,643
Fund Balances - End of year	\$	75,913	\$	213,880

GALIEN TOWNSHIP SCHOOLS

REQUIRED SUPPLEMENTARY SCHEDULE
 BUDGETARY COMPARISON SCHEDULE — 2001 SCHOOL IMPROVEMENT BONDS
 CAPITAL PROJECTS FUND
 JUNE 30, 2004

	Original Budget	Final Amended Budget	Actual
Revenues			
Earnings on investments	\$ 8,185	\$ 8,185	\$ 8,185
Total Revenues	<u>\$ 8,185</u>	<u>\$ 8,185</u>	<u>\$ 8,185</u>
Expenditures - Current			
Capital outlay	\$ -	\$ -	\$ -
Total Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ 8,185</u>	<u>\$ 8,185</u>	<u>\$ 8,185</u>
Other Financing Sources (Uses)			
Proceeds from issuance of bonds	\$ -	\$ -	\$ -
Interest and fees	-	-	-
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net Change in Fund Balances	<u>\$ 8,185</u>	<u>\$ 8,185</u>	<u>\$ 8,185</u>
Fund Balances - Beginning of year	370,100	370,100	370,100
Fund Balances - End of year	<u><u>\$ 378,285</u></u>	<u><u>\$ 378,285</u></u>	<u><u>\$ 378,285</u></u>

REQUIRED SUPPLEMENTARY SCHEDULE
 BUDGETARY COMPARISON SCHEDULE — 1999 BUILDING & SITE BOND
 DEBT RETIREMENT FUND
 JUNE 30, 2004

	Original Budget	Final Amended Budget	Actual
Revenues			
Property taxes	\$ 229,475	\$ 229,475	\$ 233,756
Earnings on investments	1,000	1,000	478
Total Revenues	<u>\$ 230,475</u>	<u>\$ 230,475</u>	<u>\$ 234,234</u>
Expenditures - Current			
Capital outlay	\$ -	\$ -	\$ -
Total Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ 230,475</u>	<u>\$ 230,475</u>	<u>\$ 234,234</u>
Other Financing Sources (Uses)			
Payment fo bond escrow agent			
Principle	\$ (60,000)	\$ (60,000)	\$ (60,000)
Interest and fees	(147,529)	(147,529)	(147,499)
Total other financing sources (uses)	<u>\$ (207,529)</u>	<u>\$ (207,529)</u>	<u>\$ (207,499)</u>
Net Change in Fund Balances	<u>\$ 22,946</u>	<u>\$ 22,946</u>	<u>\$ 26,735</u>
Fund Balances - Beginning of year	146,638	146,638	146,638
Fund Balances - End of year	<u><u>\$ 169,584</u></u>	<u><u>\$ 169,584</u></u>	<u><u>\$ 173,373</u></u>

**OTHER SUPPLEMENTAL
INFORMATION**

GALIEN TOWNSHIP SCHOOLS**COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2004

	Athletics Fund	Food Service Fund	1998 School Improvement Bonds - Debt Retirement	2001 School Improvement Bonds - Debt Retirement	Total Nonmajor Governmental Funds
Assets					
Cash and investments	\$ 8,055	\$ 891	\$ -	\$ -	\$ 8,946
Due from other governmental units	-	1,184	-	-	1,184
Due from other governmental funds	-	-	-	-	-
Inventories	-	1,142	-	-	1,142
Prepaid expenditures	-	-	-	-	-
Total Assets	\$ 8,055	\$ 3,217	\$ -	\$ -	\$ 11,272
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other governmental funds	-	-	-	-	-
Total Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
Fund Balance					
Reserved for inventories	\$ -	\$ 1,142	\$ -	\$ -	\$ 1,142
Unreserved and undesignated	-	-	-	-	-
Unreserved and undesignated - food	-	2,075	-	-	2,075
Unreserved and undesignated - athletics	8,055	-	-	-	8,055
Total Fund Balance	\$ 8,055	\$ 3,217	\$ -	\$ -	\$ 11,272
Total Liabilities and Fund Balance	\$ 8,055	\$ 3,217	\$ -	\$ -	\$ 11,272

GALIEN TOWNSHIP SCHOOLS

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE COMBINING NONMAJOR GOVERNMENTAL FUNDS JUNE 30, 2004

	Athletics Fund	Food Service Fund	1998 School Improvement Bonds - Debt Retirement	2001 School Improvement Bonds - Debt Retirement	Total Nonmajor Governmental Funds
Revenues					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Local sources	14,416	55,617	-	-	70,033
State sources	-	7,197	-	-	7,197
Federal sources	-	45,573	-	-	45,573
Interdistrict sources	-	-	-	-	-
Earnings on investments	20	32	-	-	52
Total Revenues	\$ 14,436	\$ 108,419	\$ -	\$ -	\$ 122,855
Expenditures					
Current:					
Instruction	\$ -	\$ -	\$ -	\$ -	\$ -
Supporting Services	82,403	113,303	-	-	195,706
Community services	-	-	-	-	-
Debt service	-	-	-	-	-
Capital outlay	-	-	-	-	-
Intergovernmental payments	-	-	-	-	-
Total Expenditures	\$ 82,403	\$ 113,303	\$ -	\$ -	\$ 195,706
Deficiency of Revenues under Expenditures	\$ (67,967)	\$ (4,884)	\$ -	\$ -	\$ (72,851)
Other Financing Sources (Uses)					
Operating transfers in	\$ 67,783	\$ 3,875	\$ -	\$ 35,000	\$ 106,658
Payment to bond escrow agent					
Principal	-	-	-	(35,000)	(35,000)
Interest and fees	-	-	-	-	-
Operating transfers out	-	-	-	-	-
Total Other Financing Sources (Uses)	\$ 67,783	\$ 3,875	\$ -	\$ -	\$ 71,658
Net Change in Fund Balances	\$ (184)	\$ (1,009)	\$ -	\$ -	\$ (1,193)
Fund Balances - Beginning of year	8,239	4,226	-	-	12,465
Fund Balances - End of year	\$ 8,055	\$ 3,217	\$ -	\$ -	\$ 11,272



September 24, 2004

To the Board of Education
Galien Township Schools
Galien, MI

In planning and performing our audit of the financial statement of Galien Township Schools ("School District") for the year ended June 30, 2004, we considered the School District's internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving the internal control structure and its operation that we consider opportunities for strengthening internal controls and operating efficiency.

SEGREGATION OF DUTIES

Control over cash receipt transactions is limited because of insufficient segregation of duties. The same individual accepts cash receipts; records cash receipts, prepares bank deposits, and makes bank deposits. In addition, the same individual receives the bank statements and prepares the bank reconciliations. Due to limited personnel, the School District does not feel further segregation would be warranted from a cost/benefit standpoint.

REVIEW GOVERNMENT ACCOUNTING STANDARD BOARD ("GASB") STATEMENT #40- DEPOSIT AND INVESTMENT RISK DISCLOSURES.

Effective June 30, 2005, governmental entities will be required to expand their current disclosure requirements addressing common risks of deposits and investments. The disclosure requirements apply to debt and an equity investment held directly by the entity or indirectly by the investment advisors and requires that a governmental entity disclose investment policies that are related to custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. If the entity has adopted no policy with respect to a particular risk, that fact should also be part of the disclosure.

The School District should review its investment policies to determine all common risk areas are identified and the appropriate level of risk for each area is quantified.

ADOPT CREDIT CARD USE POLICY

We noted the School District does use credit cards for District business currently, but may in the future. We recommend the School District adopt a credit card policy and ensure it meets the appropriate guidelines. Public Act 266 of 1995 authorizes the use of credit cards by the District and by resolution; the District must adopt a written policy that provides those guidelines, as follows, described by Department of Treasury Letter No. 2-96:

REVIEW CURRENT CREDIT CARD USE POLICY (CONCLUDED)

- a) A named officer or employee is responsible for the issuance, accounting, monitoring, and retrieval and generally for overseeing compliance with the credit card policy.
- b) That the credit card may be used only by an officer or employee for the purchase of goods or services for the official business of the School District.
- c) The officer or employee using the credit card must submit documentation detailing the goods or services purchased, cost, date of the purchase, and the official business.
- d) The officer or employee issued the card is responsible for its protection and custody and shall immediately notify the local unit if the card is stolen.
- e) The officer or employee must immediately surrender the card upon termination.
- f) For a system of internal controls to monitor the use of the credit card.
- g) Approval of credit card invoice **before** payment.
- h) That the balance including interest due on an extension of credit under the credit card arrangement shall be paid for not more than 60 days of the initial statement date. The School District shall comply with this provision of the credit card policy.
- i) The policy must provide for disciplinary measures consistent with law for unauthorized use.
- j) Any other matters the governing body considers advisable.
- k) The total combined authorized credit limit of all cards issued by the School District shall not exceed 5% of the total budget of the School District for the current fiscal year. The School District may include in its budget the authorization to pay the balance due on any credit cards, including the annual fee and interest.

The report is intended solely for the information and use of Galien Township Schools management, and others within the District, and is not intended to be and should not be used by anyone other than these parties.

We appreciate the courtesy and cooperation extended to us by you and members of the School District during the audit. We appreciate the opportunity to present these recommendations for your consideration and would be pleased to discuss them further at your convenience.

McMurray, Marks & Edmunds

McMurray, Marks & Edmunds
St. Joseph, MI